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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE - MARCH
15-28

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2008 ECONOMIC GROWTH FORECAST AT 2.5 PERCENT

[¶1. \(U\)](#) Economic analysts forecast 2.5 percent economic growth for Spain in 2008 and not more than 2.1 percent in 2009: The Savings Bank Studies Foundation (Funcas) recently came out with these forecasts based on interviews with 14 national economic consultancies. (Comment: There is a widespread sense that President Zapatero,s second government will focus much more on economic issues than his first government. So far, Spanish banks seem to be in good shape. However, in a sign that problems in the construction sector may be more serious than so far acknowledged, the Dubai Sovereign Investment Fund has decided not to buy the troubled real estate firm Colonial after all.) (Expansion, 3/26/08)

BUDGET SURPLUS DECLINES

[¶2. \(U\)](#) The GOS collected euros 9.3 billion more than it spent in January and February of this year as opposed to the euro 13 billion surplus it had during the same period in 2007. This represents a 27.5 percent decline in the size of the surplus. Higher spending explains a lot of the decline in the surplus - in fact spending was up by 17 percent during this period. The government is spending a lot more on infrastructure and higher pension payments. Tax collection is down, especially value added taxes from smaller companies, which reportedly reflects the cooling construction sector, especially in the residential area. Income tax collection actually went up during this period, although income tax rates are not higher. The Secretary of State for the Budget, Carlos Ocana, remains confident that in 2008 Spain will still run a budget surplus of 1.2% of GDP. (Comment: Given the

uncertainties in the global and Spanish economies, it is difficult to forecast with any certainty what Spain's budget picture will be by the end of 2008. We do know, however, that the government is likely to try to use spending to maintain growth - interest rate cuts are not possible as rates are controlled by the European Central Bank - so the budget surplus will be under severe pressure this year.) (ABC, 3/28/08)

HOUSING SALES DECLINE CONTINUES

13. (U) The number of sales of new and used homes in January was 27 percent below the January 2007 number. Sales of used homes fell by 36 percent, while sales of new homes fell by 15 percent, suggesting that owners were more reluctant than builders to lower their asking prices. The amount of new mortgage lending was 28 percent below the January 2007 level, the largest one-year percentage drop since INE began publishing the statistic in 1995. (El Pais 3/27/08)

CATALAN ECONOMY MINISTER CONCERNED ABOUT U.S., GLOBAL WOES

14. (SBU) Catalan autonomous community Economy and Finance Minister Antoni Castells described to visiting Econ Counselor on March 27 his concerns about the possible impact on Spain's economy of U.S. and global difficulties. Castells thought that, if there were no global difficulties, the housing slowdown in Catalonia and resulting slowing growth would be manageable. However, he was concerned that the situation would be aggravated by either global financial system turmoil or the impact of a possible U.S. recession on the rest of the world.

EMBOFFS MEET WITH RAIL SECURITY LEAD

15. (SBU) On March 27, Econ officers and TSA program analyst met with the Director for Security for ADIF, the quasi-governmental agency in charge of Spain's railway

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infrastructures. The Director, Antonio Bertomeu, provided Emboffs with a general overview of Spain's rail system and described security measures employed by ADIF to protect against general crimes and terrorism. TSA rep put forward various suggestions for information exchanges between TSA and ADIF, for which the Director was extremely appreciative. He also committed to a closer relationship with the Embassy.

RENEWABLE ELECTRICITY COST RISING

16. (U) The Ministry of Industry, Tourism, and Commerce, which has responsibility for energy issues, announced that the cost of subsidies in the electricity "special regime," which primarily applies to projects that generate electricity from renewable sources, would climb to 2.7 billion euros this year, up from 1.5 billion in 2006 and 2.2 billion in 2007. This year's total amounts to about 60 euros per Spaniard. (Expansion 3/17/08)

AG MINISTER WELCOMES EU DAIRY QUOTA INCREASE

17. (U) Minister of Agriculture Elena Espinosa welcomed the EU's decision to increase milk production by two percent after prices in Spain and other countries rose significantly in the second half of 2007. The Minister said the increase would allow price stability. Spain's quota will be 6.24 million tons, 4 percent of the EU total; annual consumption is around 9 million tons. Spain accepted a low quota as one of its conditions of entry into the EU in 1986.

SANTANDER, GE TO TRADE OVER 1B EUROS IN ASSETS

18. (U) Banco Santander and General Electric have reached a preliminary agreement to exchange businesses in Europe valued at 1 billion euros. Under the terms of the preliminary agreement, Banco Santander would acquire GE Money's units in

Germany, Finland and Austria, and its card and auto businesses in the UK, while GE Commercial Finance would acquire Italian commercial bank Interbanca. (Santander and GE press releases reported 3/27/08)

TELEFONICA TO COMPETE IN MEXICO?

¶9. (U) Telefonica and Mexico-based Televisa consider teaming up to compete with Carlos Slim-owned Telmex and America Movil: Telefonica,s reported interest stems from the fact that it needs to find a big cable operator in Mexico in order to offer fixed-line telephone, mobile telephone, internet and pay TV services. Televisa needs a partner with Telefonica,s size to compete with Telmex. So far no formal deal has been announced, but there is media speculation about a possible deal. (Expansion, 3/5/08)

CONSTRUCTION FIRM WINS FLORIDA ROAD CONTRACT

¶10. (U) OHL with U.S. subsidiary Community Asphalt wins second road construction contract in Florida: This second deal is for a USD 197 million contract to expand a section of I-95 from four lanes to six lanes and to build a second story for the extension of the Pineda Causeway. The first contract was for a USD 111 million project to refurbish a section of US-1. The Caja de Madrid is helping with the financing. (Comment: Presumably the willingness of Spanish banks to help in the financing makes it easier for OHL and Community Asphalt to win contracts in Florida. Caja Madrid is also a partner in a joint venture with another construction firm that is bidding on U.S. contracts.) (Expansion 3/25/08)

CEPSA TO EXPLORE FOR OIL IN COLOMBIA

¶11. (U) Oil company CEPSA announced March 24 that it had signed a purchase and sale agreement to acquire the rights to explore the Caracara Block in Colombia. The Caracara Block has estimated reserves of 40 million barrels of crude oil. CEPSA is expected to invest up to \$1 billion on this particular project and plans to raise its overall level of crude oil reserves and production worldwide. The company has increased its presence in Colombia, pursuing various contracts related to exploration. It is also involved in exploration and production activities in Algeria and in Egypt. (El Pais 3/25/08, CEPSA press release)
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